Richard Cohen

As the Gap Widens

Is capitalism heading for a crackup? On the face of it, the question is absurd. Communism is no more—gone, kaput, discredited. So, to an extent, is its more benign variant, socialism. The free-market system is not only triumphant, it is resplendent. Governments are getting out of the way of entrepreneurial man and his yen to make a buck—or, if he is wise, a yen. Still, evidence is accumulating that something is going wrong.

In the United States, and to a lesser extent elsewhere in the developed world, the gap is growing between rich and poor. The New York Times trumpeted that fact on its front page recently, but the story is hardly new. The trend was first pointed out to me years ago by Wallace Peterson, an economics professor at the University of Nebraska. He coined the term "Silent Depression" to describe what was happening. For many Americans, real income (factored for inflation) has been declining since the early 1970s.

Take a look at these numbers: Since 1973, the yearly wages of high school dropouts have declined 23.3 percent. Those of high school graduates are down 17 percent and even workers with some college—but no degree—have fallen by 7.3 percent. Only the wages of college graduates are up—by 5.2 percent. That's not a whole lot, but it's better than the poke in the eye the other categories have gotten.

At the same time, the rich are getting richer. One percent of the nation's richest households has 40 percent of the country's wealth. The gap between rich and poor is widening to the extent that Britain is now much more egalitarian than this country. In Britain, the richest one percent of the population has only 18 percent of the wealth. The way things are going, "Upstairs, Downstairs" could someday be set in America. More and more Americans are living in the basement.

The causes of both the income gap between rich and poor and the declining wages of countless blue-collar Americans are both complicated and not entirely understood. Foreign competition has played a role and so has the inability of unions to maintain high wage rates. Technology has displaced many workers, sometimes putting them out of work, sometimes moving them into lower-paying jobs. And, yes, government policies have played a role. The tax breaks of the Reagan years certainly did not help the poor.

Egalitarianism is a dirty word in some circles, particularly conservative ones. It suggests government intervention on behalf of the less well-off—the graduated income tax, among other things. Uncle Sam takes from the rich and gives to the poor. The trend nowadays is just the opposite. If anything, the government is said to have no claim on anyone's money—or so says Rep. Bill Archer (R-Tex.), chairman of the House Ways and Means Committee. His position, now both ascendant and typical of House Republicans, is that the government should just get out of the way.

And so it has—or is doing. Tax rates are going lower, with the largest deductions possibly going to those who need it least. Capital gains taxes are probably on the way down, too. This will benefit those among the poor who own stocks, bonds, art, property and the occasional market derivative. The tax rate may even go flat, so that everyone will pay the same percentage—the rich and the poor sleeping equitably under this fiscal bridge. As for the very poor, they are being driven off welfare and told to seek jobs that usually pay even less.

None of this, of course, attacks the problem of income disparity. It only makes it worse. In fact, nowhere in the vaunted Contract With America is a single item designed to reverse the trend—not through job training, not through education and not, especially, through income redistribution. The contract, really, was drawn up by a political establishment reliant on the affluent (for both votes and contributions) who will benefit from it. If you're rich, what goes around truly does come around.

The unsettling conclusion is that a whole lot of Americans are in boats that are not being lifted by the general economic prosperity. In due course, they will vent their unhappiness at the polls. Before that they will turn, as they have been doing, on the poor, the black, the immigrant and others—seeking the scapegoats that their political leaders say, falsely, are at the root of their misfortune. Maybe later they will reject the notion that government is good for nothing, that it should not intrude in the nation's economic life.

Franklin Roosevelt, claimed by almost all politicians now as their hero, knew something that much of the present political class has forgotten: It takes a little socialism to make capitalism work.